

Message Text

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DEPARTMENT OF TREASURY WASH DC IMMEDIATE

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AMEMBASSY LONDON

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AMEMBASSY MANILA

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TREASURY FOR SYVRUD, STATE PASS FRB, MANILA PASS SECRETARY
SIMON PARTY FOR WIDMAN

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: SUMMARY STATEMENT ON FORECAST AND PLANNING REPORT
FOR 1977

REF: ROME 15907

1. FOLLOWING IS INFORMAL TRANSLATION OF TEXT OF SUMMARY
STATEMENT ON FORECAST AND PLANNING REPORT FOR 1977 WHICH
HAS JUST BEEN RELEASED BY MINISTRY OF BUDGET AND PLANNING.
TEXT OF REPORT, ITSELF, WHICH OUTLINES
ECONOMIC STABILIZATION PROGRAM IN GREATER DETAIL IS NOT YET
AVAILABLE.

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2. XQUOTE/. THE FORECAST AND PLANNING REPORT WHICH THE MINISTERS

OF THE BUDGET AND THE TREASURY PRESENTED TO PARLIAMENT YESTERDAY CLEARLY SHOWS THAT THE ITALIAN SITUATION REQUIRES THE DECISIVE ECONOMIC POLICY ACTIONS, WHICH THE GOVERNMENT IS CURRENTLY PREPARING. THEREFORE, THE REPORT IS NOT MERELY A TECHNICAL DOCUMENT BUT REPRESENTS A CLEAR CHOICE BY THE GOVERNMENT IN FAVOR OF A FRUITFUL DIALOGUE WITH THE PARLIAMENT. THE INCREASE IN GROWTH, THE DECELERATION OF PRICES, AND THE MAINTENANCE OF EMPLOYMENT WHICH HAVE CHARACTERIZED RECENT DEVELOPMENTS IN OUR ECONOMY, CAN ONLY CONTINUE IN THE NEAR FUTURE IF UNDERLYING DISEQUILIBRIA ARE PROGRESSIVELY ELIMINATED. UNTIL NOW, SUCH DISEQUILIBRIA HAVE BEEN CONTAINED IN PART THROUGH THE USE OF A RESIDUAL MARGIN OF FOREIGN CREDIT. HOWEVER, FROM NOW ON, SUCH DISEQUILIBRIA WOULD EXPLODE, INEVITABLY REKINDLING THE DEVALUATION/INFLATION SPIRAL.

3. THE ABNORMAL PATTERN IN WHICH THE ITALIAN ECONOMIC SYSTEM IS NOW OPERATING IS SUBSTANTIALLY AS FOLLOWS: WHEN THE ECONOMY IS IN ARECOVERY PHASE, FOREIGN EXHCNAGE INCOME FROM EXPORTS IS LESS THAN THE AMOUNT OF FOREIGN EXCHANGE NECESSARY TO PAY FOR IMPORTS, GIVEN THE STRONG PRICE INCREASES WHICH PETROLEUM AND OTHER IMPORTED GOODS HAVE UNDERGONE IN RECENT YEARS. GIVEN THE STATE OF OUR FOREIGN EXCHANGE RESERVES, AN EXCHANGE RATE DEVALUATION AND AN ACCELERATION OF INFLATION TO AN INTOLERABLE RATE CAN OCCUR. THEREFORE, LARGE ERRORS MUST NOT BE COMMITTED IN THE AREA OF BUDGET DEFICITS AND LIQUIDITY INCREASES, BECAUSE THE DISEQUILIBRIA WHICH WOULD RESULT WOULD END UP BY THREATENING EMPLOYMENT LEVELS.

4. INCREASES IN PRICES, BESIDES AGGRAVATING CONFLICTS AMONG SOCIAL CLASSES AND HURTING THE WEAKEST GROUPS, WOULD FURTHER ERODE THE COMPETITIVENESS OF OUR EXPORTS AND WOULD FURTHER ERODE THE VALUE OF OUR CURRENCY.

5. IN ORDER TO MAKE THE ECONOMIC RECOVERY A STABLE AND LASTING ONE, THE GOVERNMENT IS THEREFORE FOLLOWING AN ECONOMIC POLICY LINE WHICH CONCENTRATES ON THE FIGHT AGAINST INFLATION AND ON THE MAINTENANCE OF THE OVERALL LEVEL OF EMPLOYMENT--A POLICY LINE AIMED AT MODIFYING STRUCTURAL INDADQUACIES IN OUR ECONOMY.

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6. THE RESPONSE TO THE PRESENT DIFFICULT SITUATION WHICH THE GOVERNMENT IS PROPOSING TO PARLIAMENT IS NOT A MERE LISTING OF STABILIZATION MEASURES, BUT IS A COHERENT ECONOMIC PROGRAM WHICH, WHILE AIMED AT THE CURRENT ECONOMIC SITUATION, WILL ALSO BE ABLE TO HAVE AN IMPACT ON THE STRUCTURAL CAUSES WHICH HAVE LED TO PRESENT PROBLEMS. IT IS NOT A QUESTION OF UNCOORDINATED ACTION IN ONE DIRECTION OR ANOTHER TO AFFECT DOMESTIC DEMAND.

RATHER, IT IS NECESSARY TO REGULATE THE ALLOCATION OF RESOURCES THROUGH THE PLANNED USE OF TAX AND EXPENDITURE POLICY SO AS TO MODIFY THE AMOUNT AND TYPE OF CONSUMPTION AND, THEREBY, ASSURE THE TIMELY IMPLEMENTATION OF INVESTMENT PROGRAMS. THIS IS THE ONLY WAY TO RE-LAUNCH ECONOMIC GROWTH AND EMPLOYMENT ON A SOLID BASIS.

7. ON THE ONE HAND, THE PROSPECTS FOR ACHIEVING THESE OBJECTIVES IN CONCRETE TERMS REQUIRE BEHAVIOR BY THE SOCIAL FORCES (ESPECIALLY MANAGEMENT AND LABOR) IN CONFORMITY WITH THE SERIOUSNESS OF THE CURRENT SITUATION. AT THE SAME TIME, A RIGOROUS FISCAL POLICY TO RE-ESTABLISH EQUILIBRIUM BETWEEN CURRENT REVENUES AND CURRENT EXPENDITURES IS NECESSARY. THE REGIONS AND LOCAL GOVERNMENTS, WHICH PLAY A ROLE OF PRIMARY IMPORTANCE IN OUR PROGRAM, MUST PARTICIPATE WITH THE CENTRAL GOVERNMENT IN THIS RIGOROUS PROGRAM.

8. THE REFORM OF PUBLIC FINANCE THEREFORE REQUIRES AN INCREASE IN THE EFFICIENCY OF THE PUBLIC ADMINISTRATION TO IMPROVE THE QUALITY OF THE SERVICES PERFORMED AND TO REDUCE THEIR COST.

9. A REDUCTION IN THE DEFICIT ON CURRENT OPERATIONS AND AN IMPROVEMENT IN THE EFFICIENCY OF PUBLIC INSTITUTIONS CAN CHANGE PUBLIC FINANCE FROM A DRAG ON THE ECONOMY INTO A STIMULUS FOR ECONOMIC RECOVERY AND DEVELOPMENT.

10. THE REPORT SHOWS THAT THE ECONOMIC POLICY LINES ADOPTED BY THE GOVERNMENT AT RESTORING THE CONDITIONS FOR A REVIVAL OF ECONOMIC GROWTH.

11. ALSO, GIVEN THE DIFFICULTIES OF FINANCING BALANCE OF PAYMENTS DEFICITS, THE REPORT STRESSES THAT THE CONTAINMENT

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OF DOMESTIC DEMAND IS A NECESSARY CONDITION TO PREVENT FURTHER DISEQUILIBRIA IN THE BALANCE OF PAYMENTS, FROM CAUSING A RESURGENCE OF THE DEVALUATION/INFLATIONARY SPIRAL. THIS CONSTRAINT ON DEMAND IMPOSES AN INEVITABLE CHOICE: REDUCTIONS IN CONSUMPTION MUST BE ACCEPTED, SINCE THE GROWTH OF INCOME DEPENDS UPON THE NEED AT LEAST TO RESTORE EQUILIBRIUM IN THE BALANCE OF PAYMENTS (WHOSE DEFICIT CAN NO LONGER BE FINANCED, GIVEN THE MODEST LEVEL OF RESERVES AND THE DIFFICULTY OF OBTAINING SUFFICIENT FOREIGN CREDIT). OTHERWISE A FURTHER INCREASE IN UNEMPLOYMENT

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WILL OCCUR THROUGH A DISASTROUS SPIRAL OF INFLATION AND DEPRECIATION OF THE EXCHANGE RATE.THE GOVERNMENT REJECTS THIS SECOND ALTERNATIVE AND SEEKS TO CREATE CONDITIONS FAVORABLE TO EXPANSION OF INVESTMENT BY FOLLOWING THE FIRST CHOICE.ALTHOUGH APPARENTLY MORE PAINFUL, IT IS THE ONLY ONE WHICH BOTH MAKES EVERYONE A PARTICIPANT IN THE ENORMOUS TASK WHICH THE COUNTRY IS CALLED UPON TO CARRY OUT AND WHICH PERMITS US TO ACHIEVE CREDIBILITY WITH OUR PARTNERS WHO OTHERWISE WILL NO LONGER BE DISPOSED TO MAKE SACRIFICES SO THAT ITALY CAN CONTINUE TO LIVE BEYOND ITS CURRENT INCOME.

12. HOWEVER, THE REPORT SAYS THAT THE ECONOMIC POLICY TO BE CARRIED OUT IS NOT INTENDED ONLY TO LIMIT THE GROWTH OF DOMESTIC DEMAND WITHIN THE CURRENT BUSINESS CYCLE, BUT IT ALSO AIMS AT A COHERENT PLAN OF INVESTMENT FOR RE-CREATING THE CONDITIONS NECESSARY FOR A LASTING REVIVAL OF GROWTH AND EMPLOYMENT.

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13. SUCH ACTION REQUIRES A POLICY OF MODERNIZATION OF THE PRODUCTIVE SYSTEM, WITH PARTICULAR REGARD TO THE MANUFACTURING AND FOOD/AGRICULTURAL SECTORS.

14. IN ORDER TO SATISFY THE DESIRE FOR SOME IMPROVEMENT IN THE QUALITY OF LIFE, IT IS NECESSARY THAT A PORTION OF RESOURCES BE DIRECTED TO INVESTMENTS IN RESIDENTIAL HOUSING AND IN HEALTH CARE. HOWEVER THIS IS INCOMPATIBLE WITH THE PRESENT STATE OF PUBLIC FINANCES, WITH THE PRESENT GROWTH OF PRIVATE CONSUMPTION, AND WITH THE PRESENT GROWTH OF PRIVATE CONSUMPTION AND WITH THE EXISTENCE OF A BALANCE OF PAYMENT CONSTRAINT.

15. POSSIBILITIES FOR EXPANDING THE PRODUCTIVE BASE AND FOR EFFECTIVE REFORMS CAN ONLY BE CREATED THROUGH A REDUCTION IN THE DEFICIT ON CURRENT OPERATIONS IN THE PUBLIC SECTOR AND A REDUCTION IN PRIVATE CONSUMPTION.

16. FOR THIS PURPOSE, AN INCREASE IN TARIFFS ON A GROUP OF PUBLIC SERVICES HAS BEEN PROVIDED FOR. ALSO BEGINNING IN 1977 AND INCREASE IN TAX RECEIPTS AND IN OTHER FORMS OF REVENUE ON THE BASIS OF DATA PRESENTLY AVAILABLE, SHOULD AMOUNT TO ABOUT 2.5 PERCENT OF GROSS DOMESTIC PRODUCT.

17. THROUGH THE USE OF SUCH REVENUE, IT WILL BE POSSIBLE TO ASSURE THE NECESSARY APPROPRIATIONS FOR THE FINANCING MEASURES FOR THE MODERNIZATION OF THE INDUSTRIAL SYSTEM, AND FOR MEASURES DESIGNED TO INCREASE THE EMPLOYMENT OF YOUTH, TO REVIVE THE RESIDENTIAL HOUSING INDUSTRY, AND TO CARRY OUT THE FOOD/AGRICULTURAL PLAN.

18. THIS ACTION WILL BE CARRIED OUT WITH THE DEGREE OF FLEXIBILITY REQUIRED BY CHANGES IN THE ECONOMIC SITUATION.

19. IT IS ALONG THESE LINES AS THEY FURTHER EVOLVE THAT THE PROGRAM COMMITMENTS ASSUMED BY THE GOVERNMENT AT THE TIME OF ITS CREATION WILL BE FORMULATED AND ADOPTED.

20. THE REPORT, WHICH IS CHARACTERIZED BY ITS RIGOR AND CLARITY OF FORMULATION, AND BY EVIDENCE OF PRECISE CHOICES BY THE GOVERNMENT, THEREFORE CONSTITUTES A POLICY DOCUMENT WHICH CONFORMS
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TO THE SPIRIT OF THE LAW WHICH REQUIRES ITS SUBMISSION TO PARLIAMENT.
END QUOTE. VOLPE

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